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ABSTRACT

The New Youth Entrepreneur curriculum is a series of 12 youth-oriented educational modules containing instructional materials, learning activities, and checkup exercises designed to teach students key elements of entrepreneurship. This document is the ninth module, and introduces students to recordkeeping and bookkeeping strategies essential for maintaining a business and for determining if the business is making a profit. The first section explains the importance of maintaining complete records showing the purchase and sale of items and inventories of items to be sold, while the second section focuses on the use of a checkbook as a simple system for tracking the flow of money into and out of a firm, reviewing reasons for keeping a checking account, procedures for using one, and comparing its use to a file card system to record cash disbursements. The third and fourth sections discuss the uses of inventory cards for tracking the amount of money owed to and by the firm, highlighting the importance of maintaining accounts receivable and accounts payable cards and describing the relationship of purchases and sales receipts to inventory cards. The fifth section discusses the use of a simple shoe box to keep records together, while the final section describes the use of the accrual method and cash method for determining if an annual profit was made. (CELCEE, an Adjunct ERIC Clearinghouse on Entrepreneurship Education) (MAB)

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The New Young Entrepreneur

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Records and Books

Did You Make Any Money?

Module 9

JC 960 245

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THE NEW YOUTH ENTREPRENEUR

Records and Books
Did You Make Any Money?

Module 9

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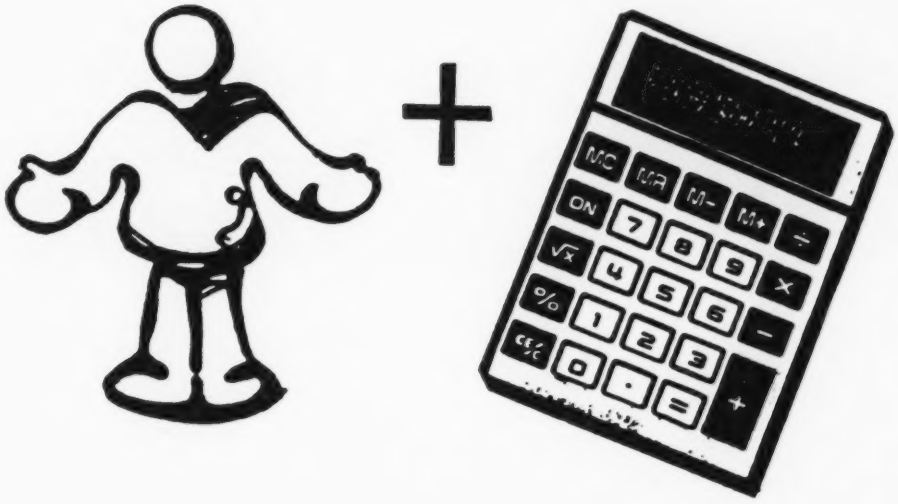
Records and Books
Did You Make Any Money?

- Are there simple systems I can use?
- When might I need help with my business?
- How do I use file cards to record cash?
- How do I keep track of money in and money out?
- Can a shoebox help "keep it all together"?
- How do I know if I'm making any money?
  (You don't have to be an accountant.)

How Do I Know If I'm Making Any Money?

The main goal of any business:
To make money.
$
How do you know if your business is making money? You must keep written records.

You don't have to be a bookkeeper or an accountant to keep your business records. If you can add and subtract and/or use a calculator, you CAN do it!



How Do I Know If I'm Making Any Money?

Accurate, organized records ARE important tools!

These tools help you:

1. MANAGE YOUR MONEY
2. MAKE BUSINESS DECISIONS

These records:

1. Help you decide what price to put on your goods and services.
2. Let you know what bills you have to pay.
3. Let you know who owes you money.
4. Let you know whether you are making any money.
5. Tell you what goods and products you have on hand.
6. Tell you which of your goods or services are selling the best.
7. Help you do any financial reports that you need.
8. Let you know how much cash you have on hand and in the bank.

ACCURATE RECORDS ARE A MUST FOR TAX OR LEGAL PURPOSES.

How Do I Know If I'm Making Any Money?

Anita always liked to fix things. She worked with her father and mother, who were both mechanically inclined, in fixing a variety of things around the household. Early on, she developed an interest in fixing bicycles. In her sophomore year in high school, she set up a small shop in her parent's garage to do some routine work on bicycles for those in the neighborhood. She would fix the bicycles after school and on weekends. During the summer, she would spend several days a week fixing the bicycles of young people and adults in the community.

One problem that Anita always had was the paperwork involved with her small business. Sometimes a supplier would say that Anita would have to pay for some parts that she ordered. She thought that she had paid him but could not find a receipt showing payment. So she paid him again, thinking to herself that she really was paying him twice. Her dad asked her how much she thought that she made during the year. She had no idea because the receipts she had for paying bills were not in any particular place and her billing for jobs done was rather haphazard. Generally, she would verbally tell a customer how much he/she owed; they could pay it now or later. She sometimes forgot to make out a bill showing how much a person owed. So, if the customer did not pay right away, many times the amount owed would be forgotten. Anita could very well have been working for nothing. She did not know much about her profits because of a lack of good records.

How Do I Know If I'm Making Any Money?

Record keeping is very important for the small businessperson. By the end of this module you will be able to:

1. Explain at least five reasons why complete records are very important for the success of a business.
2. Define, compare and contrast a purchases receipt and a sales receipt.
3. List the various steps for opening a checking account including shopping for the best checking account, completing the signature card, making the first deposit and ordering the checks. Demonstrate how to do each of these steps.
4. Demonstrate how to write a check and endorse a check to be deposited into an account.
5. Explain why there is a need to have enough money in the account to cover the check that you want to write.
6. Define the purposes of an inventory card. Explain how the purchases receipt and sales receipt relate to the inventory card.
7. Define accounts receivable and accounts payable cards and explain why the small business operator must be sure to keep careful records of his/her accounts payable and accounts receivable. Demonstrate correct procedures for completing the cards.
8. Explain how the purchases and sales receipts, as well as cash disbursements and cash receipts, relate to the accounts receivable and accounts payable cards.
9. Describe the file card/cash method and differentiate it from the checkbook method. Demonstrate correct procedures in completing the cash disbursements and cash received cards.
10. Explain what the envelope method is, what should be included in the envelope each month and how the envelope method is beneficial for the small business operator.

11. Explain how to determine what the profit is for your business for the year. Indicate the records that you would use in order to determine the amount of profit.

12. Name at least two considerations that one should look at when evaluating whether a business has shown a good profit for the year.

13. Name at least four types of information that you can gain from the records covered in the chapter and indicate how it can help you make decisions.

RECORDS, RECORDS, RECORDS

What kinds do you need in order to operate a business? There are a few which are a must for any business, even the small business that you might start while you are in school. Let's take a look at some of them. Remember that the large businesses, such as the IBMs and General Motors of the world, have to keep these kinds of records, too.

a. Records to show that you have made a sale or that a sale has been made to you. In other words, records that show your purchases from others and your sales to others.

b. Records to keep track of money coming in or being paid out of the business. We will take a look at two types of records for keeping track of cash in this module.

c. Records showing how much you have in stock of a particular item for a business where you are selling a good, such as clothes and jewelry.

d. Records showing how much you owe others and what others owe you.

e. A system for keeping your records in a convenient place.

How Do I Know If I'm Making Any Money?

Records Showing Purchase and Sale of Items

The first type of record that you should keep is for purchases and sales receipts. A receipt is a piece of paper showing that a transaction has taken place. It generally shows the item that was sold, the price of the item, the date of the transaction and whether the sale was made for cash or on credit.

The purchases receipt is what you receive when you purchase something from another party. It shows that someone sold you an item or service. A sales receipt is what you issue to other people when they buy something from you. As an example, the receipt that you get when you buy items from the grocery store is a purchases receipt to you, but a sales receipt to the store.

It is a good idea to save all of your purchases receipts so that you can look back to see what you purchased, the price at which you purchased the items and whether you paid cash for the items or charged them. Also, if you total all of your purchases receipts you will get an idea of total expenses. Sales receipts should also be saved. By looking at your sales receipts, you can determine what happened with your sales. As you will find out later, information on the sales or purchases receipts will be used elsewhere. We will also look into ways to save these receipts in a later section.

SALES RECEIPT

ANITA'S BICYCLE SHOP

Customer Name _____

Address _____

Date Cash ☐ Credit ☐

QTY	ITEM	UNIT COST	TOTAL COST
	TOTAL		

How Do I Know If I'm Making Any Money?

Remember Anita and her bicycle repair shop? She had trouble issuing receipts for the sales that she made. Listed below is a sales receipt that she issued when putting a new chain on Jake Long's bicycle. Answer the questions that follow.

1. What did Jake Long receive?
2. Why should you have a date on the sale receipts?
3. Why is there a unit price column and a total price column?
4. Was this a cash or credit sale?
5. Why would you want to have the name and address of the customer on the sales receipt in this situation?

SALES RECEIPT

ANITA'S BICYCLE SHOP

Customer Name *Jake Long*

Address *236 Cherokee Lane*

Date *2/3/95* Cash ☐ Credit ☒

QTY	ITEM	UNIT COST	TOTAL COST
1 ea.	*Bicycle Chain*	*14.95*	*14.95*
		tax	*.90*
	TOTAL		*$15.85*

How Do I Know If I'm Making Any Money?

Records Showing Inventory of Items to Sell

If you are a service business, this type of record is not necessary. But if you are selling items, such as bicycle parts, jewelry, or clothing, you will need some type of inventory records. Inventory records track the movement of a particular type of item in and out of your business.

Notice the inventory card which is below. You would have one of these for each item that you have in stock. It shows the name of the item at the top. It then has a date column which shows when more items were added and subtracted from the inventory. It also has a balance column which shows how many of the items you currently have on hand.

Inventory Card

Item _____

Date	Amount Bought	Amount Sold	Balance

ADD PURCHASE RECEIPTS. SUBTRACT SALES RECEIPTS.

The question arises as to where the businessperson can get his/her data to complete the inventory records. The purchases receipt showing inventory items that you purchased would be one place. The sale receipts would show when you sold items, thus decreasing the amount of your inventory.

How Do I Know If I'm Making Any Money?

As indicated previously, records can help you make decisions. For example, by looking at the inventory records, you can easily see which items sell well and which ones do not sell very quickly. If your business is primarily selling merchandise, it is very important that the items not sit on the shelves but are sold. Remember that you do not make a profit unless the items are sold. After looking at your inventory records, you might decide not to carry some items because they do not seem to be selling very well. Also a glimpse at the inventory records can help you determine when to make a new order for a particular item when there are only a few on hand. Inventory records can also help you determine if any theft is taking place. If your inventory records show that you should have 10 of a particular item and you find that you only have two of that item, it could be that someone is stealing from you. You must then put into effect some way to control that type of problem.

In many large-scale operations with many products to sell, such as in a grocery or hardware store, it is very time consuming to keep these records manually. Most of them keep up-to-date inventory records through their computerized system. For each sale, the checkout person presses into the cash register the inventory number of each item that is sold at the time that the sale is made or this information is scanned into the system automatically. Each item that is sold is then deducted from the quantity of that item in stock. When the amount of inventory for an item gets down to a certain number, there is a signal to order more of it. When purchases are made by the firm to replenish the inventory, the number of additional items is entered into the system, increasing the inventory of each item.

How Do I Know If I'm Making Any Money?

Check Point! Check Your Understanding

1. What are inventory records?

2. Why do businesses which only sell services not become involved with maintaining inventory records?

3. Explain how purchases and sales receipts relate to inventory records.

4. Indicate at least two decisions which can be made after looking at the inventory records for a business.

5. Explain how your local grocery store with a computerized system probably maintains their inventory records.

Records Which Show the Flow of Money Into and Out of the Firm

There are two methods which can be used to show the flow of money into and out of the business. One of them is through the use of the checkbook. The other is a file card/cash method which does not include a checking account.

THE CHECKBOOK METHOD

A checkbook is a service offered by a financial institution, such as a bank, where the institution agrees to put your money into an account and pay it out as you direct, through the checks that you write. A business checking account is one for the business; a personal checking account is one for an individual or family. In many instances, a bank will charge a business or a person for the use of the checking account through bank charges.

With a business checking account, you can keep track of cash coming into or being paid out of your business. All cash received from the sale of goods and services is deposited into the checking account. All cash paid out by the business is done through checks. If you add up all of the deposits and subtract all of the checks plus bank charges, what is left is the amount that you have in the account.

Reasons You Might Want a Checking Account

1. You have a record showing you made a payment. When you pay a bill by check, you are directing the institution which has your account to pay the party named on the check. After payment is made, the check is returned to you by the institution which has your account. The returned check is known as a canceled check. Since the canceled check shows that an amount has been paid, it can be used as a record showing payment.
2. A checking account is a good way to have a safe place for your money. With a checking account, you give your money to the institution which has your account, to pay out as you direct. The checks that you write tell the bank who should receive your money. Only you can write the directions as to how that money in your account is distributed. Without the checking account, you would have to keep a stash of cash somewhere in your business and that wouldn't be safe.
3. Most businesses have to accept checks from customers since a checking account is a very popular way to keep track of the flow of money. Some customers may not buy from you if you don't take checks. In this case, you will need an account in a bank in order to cash your customers' checks. If most or all of your business is on a cash basis, this particular reason for having a checking account would not apply to you.
4. Bankers can be a very good source for technical assistance for you. If you are using one of their services, bankers will be more likely to help you out.
5. You also may be able to get interest on your checking account which could be more than your bank charges.

Procedures to Use a Checking Account

1. Select banks that are convenient to you; ones that you can get to easily.
2. Visit each one and ask about the various plans for checking accounts that they have. Banks generally have business and personal checking accounts. Review with the banker why you want the account and ask for his/her recommendation of the "right" account for you. Evaluate what you are getting and giving up in making that choice over another option. Make a choice of the "best one" for each bank.
3. Compare and contrast the "best choice" of a checking account from each of the banks. You will find that the banks can differ quite a bit as to charges and services offered with a checking account. Try to get the best deal for your purposes.
4. After selecting the bank where you want the account, plan to open the account. You will need to complete and sign a signature card, so the bank will have a record of your signature. When checks that you have written are presented to the bank for payment, they can check to see whether you actually wrote the check by looking at the signature card. It is a real safeguard for you. If you are a minor (in most states less than 18 years old), you might have to have an adult sign the signature card and each check.
5. When you open the account, you will be asked to order your checks. Ask how much the various checks will cost (the cost comes out of your checking account). Remember, the fancier the checks, the more they will cost. Order the smallest number of checks possible. You can always order more later. The checks that you order will be pre-numbered and include your name and address.
6. You will need to make a deposit of money into the account so that it has a balance. The steps for completing a deposit ticket are given in the next section.
7. Since it will take some time for the checks to be printed, ask your banker to show you how to use your account until your special checks are ready. Also find out if the bank will mail your new checks to you or if you must come in and pick them up.

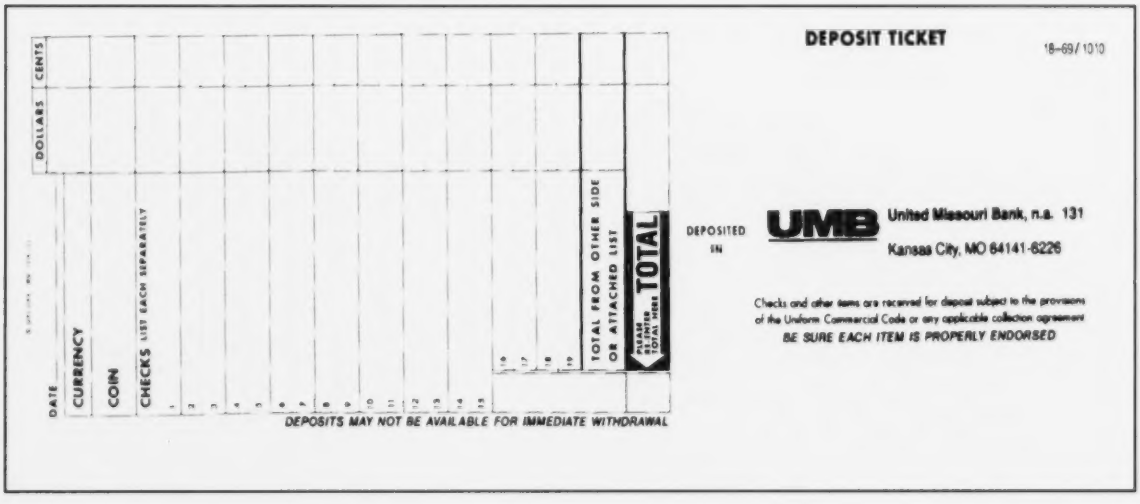
Putting Money Into Your Account

WHAT IS A DEPOSIT? HOW DO I MAKE A DEPOSIT?

To make a deposit, you need:

1. A DEPOSIT SLIP
   - You get deposit slips along with your new checks.
   - The deposit slips will have the same name and checking account number on them as those on your checks.
2. MONEY TO DEPOSIT
   - Checks made out to you or your business.
   - Currency (paper money such as $5 bills or bills of other amounts).
   - Coins (such as nickels, dimes, quarters).

This is a sample DEPOSIT SLIP

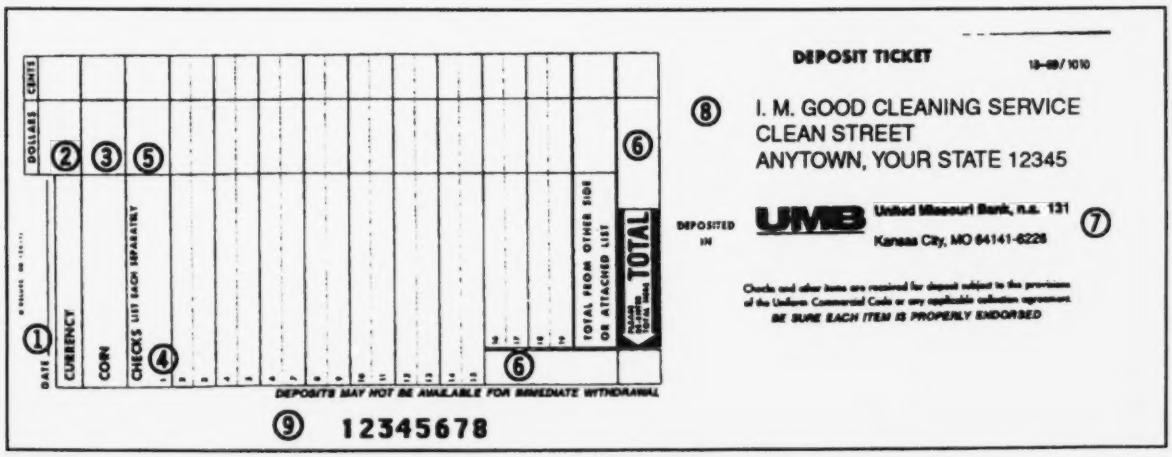

DEPOSIT TICKET
18-69/1010
DOLLARS
CENTS
DATE
CURRENCY
COIN
CHECKS LIST EACH SEPARATELY
TOTAL FROM OTHER SIDE OR ATTACHED LIST
TOTAL
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL
DEPOSITED IN
UMB
United Missouri Bank, n.a. 131
Kansas City, MO 64141-6226
Checks and other items are received for deposit subject to the provisions of the Uniform Commercial Code or any applicable collection agreement
BE SURE EACH ITEM IS PROPERLY ENDORSED

Checkbook

TO USE A DEPOSIT SLIP, FOLLOW THESE INSTRUCTIONS:

Look at the deposit slip below. Where you see the number:

1. Write the date the deposit is being made.
2. Write the total of all paper money (dollars).
3. Write the total of all money in coins.
4. Write the bank number from each check being deposited.
   These numbers are on the upper right hand corner of the check and usually appear like this: 13-123 / 102
5. Write the amount of each check.
6. ADD all currency, coins and checks together and write the total amount to be deposited.
7. Shows the name of your bank - preprinted.
8. Shows your name or your company name - preprinted.
9. Shows your account number - preprinted.



NOTE: All deposit slips do not look exactly like the one above. But, they do ask for the same information.

LOOK AT YOUR DEPOSIT SLIP:

1. See where to write each piece of information.
2. If you are not sure how to fill out your deposit slip, ask your banker for help.

Checkbook

Check Point! Check Your Understanding

1. Explain how a checking account works.

2. What is a canceled check and why can you use a canceled check to show that payment has been made?

3. Why do institutions many times have service charges for the checking accounts that they offer?

4. Explain three reasons why you might want to use a checking account as an important record keeping method for a business.

5. Explain why it is important to shop around for the best checking account.

6. What is a signature card and why is it an important safeguard for you?

7. When you open a checking account, why must you also order your checks?

8. What is a deposit and what is a deposit ticket?

9. What is the difference between coin, currency and checks which are terms listed on a deposit ticket?

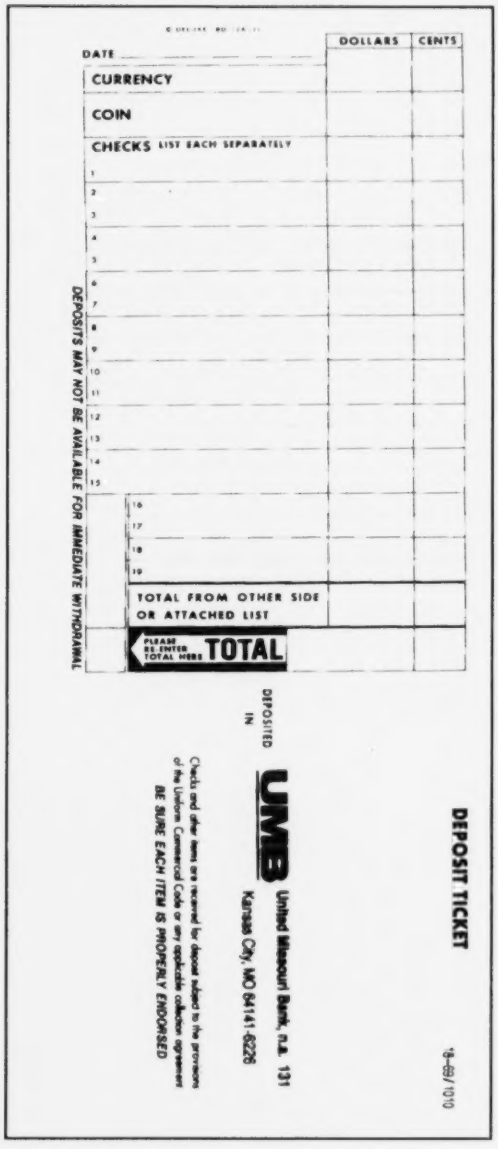
10. Explain what is meant by the statement that, "A checking account involves having the bank pay out your money as you please according to your directions given on a check."

Checkbook

SAMPLE PROBLEM:

Use the information below and fill out the sample deposit slip on this page.

You have the following money to put into (DEPOSIT TO) your business account on January 3, 1995:


DATE
DOLLARS
CENTS
CURRENCY
COIN
CHECKS LIST EACH SEPARATELY
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL
TOTAL FROM OTHER SIDE OR ATTACHED LIST
PLEASE BE CERTAIN TOTAL IS HERE
TOTAL
DEPOSITED IN
UMB
United Missouri Bank, n.a. 131
Kansas City, MO 64141-6226
Checks and other items are received for deposit subject to the provisions of the Uniform Commercial Code or any applicable collection agreement
BE SURE EACH ITEM IS PROPERLY ENDORSED
DEPOSIT TICKET
18-68/1010

CASH:

Bills: $24.00 in 1-dollar bills

$10.00 in 5-dollar bills

$60.00 in 10-dollar bills

Coins: $ .60 in dimes

$ 1.50 in quarters

$ .15 in nickels

CHECKS:

$15.50 bank number $\frac{55\text{-}326}{102}$

$25.00 bank number $\frac{55\text{-}293}{102}$

HINT:

1. Add all currency together and write the total beside the word "currency".
2. Add all coins together and write the total beside the word "coin".

Checkbook

BEFORE YOU DEPOSIT A CHECK TO YOUR ACCOUNT

1. Make sure the check is made out to you or to your business. This means that on the front of the check where you see:

   "PAY TO THE ORDER OF" _____
   your name or your company's name should be written on this line.

2. Turn the check over so you are looking at the back, like this:
   Now you are going to:

   Endorse the check on the upper left corner

3. Write: "For deposit only" (see example).

4. Sign your name (see example).

5. Write your account number under your name (see example).

Checkbook

ACTIVITY: You are given this check by a customer:

Fred's Foods
321 Rutabaga
Anytown, Your State 12345

175

1/6 19 94

32-105
117

PAY TO THE ORDER OF Lawn Care Associates $ 35.00

thirty - five and 00/100 DOLLARS

GREENWAY BANK
Anytown, Your State

for lawn treatment Samuel Ni

⑆100008985239⑆ 00395811' 175

Your company's name is: LAWN CARE ASSOCIATES

Your Checking Account Number is: 1 2 3 6 9 5 4

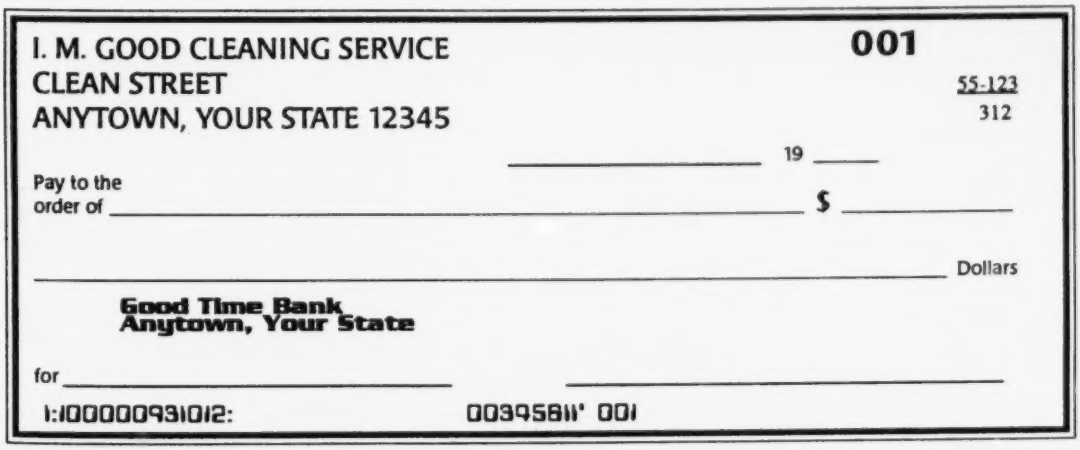
Below is the BACK of the same check. ENDORSE THE CHECK for deposit to your checking account.

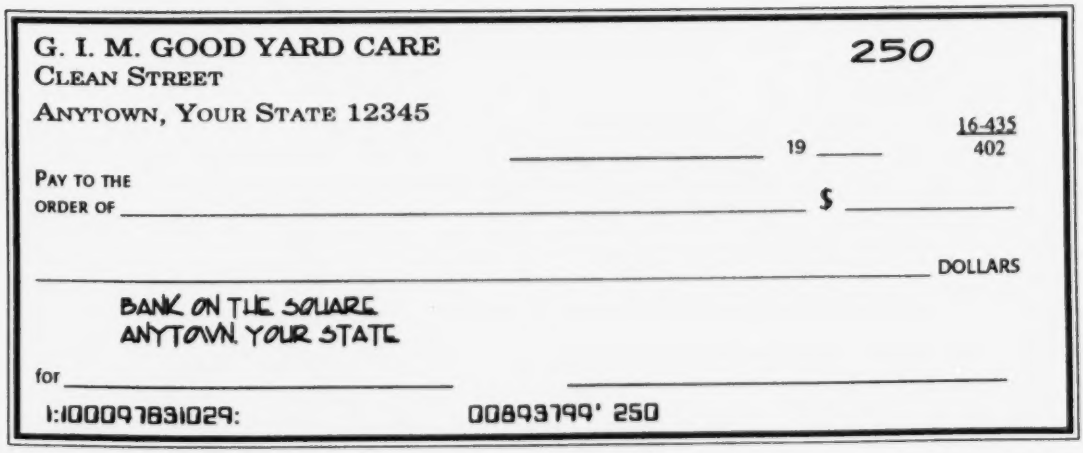
Taking Money Out of Your Account

HOW AND WHY DO I WRITE A CHECK?

You write a check when you need to use some of the money you have deposited into your checking account.

The following illustration shows some sample checks. Notice that the checks are slightly different, but they still have spaces for the same basic information:





Checkbook

To write a check make sure you use a writing instrument, such as a pen, which cannot be easily erased, then follow these instructions for the check on the next page. Where you see the number:

① Write the date on which the check is written.

② Write the name of the person or company to whom you are writing the check (i.e. the person or company you want to pay).

③ Write the amount of the check using numerals, such as $200.00 or $54.60. Make sure you write the numerals as close to the dollar sign as possible so that the amount cannot be easily changed.

④ Write the amount of the check using words for the dollar amount and numerals over 100 (##/100) for the cents amount:
50 cents would be written $\frac{50}{100}$ no cents would be written $\frac{00}{100}$

⑤ Write the reason for writing the check or write the invoice or account number that shows what bill was paid.

Examples: "for Xerox paper"
"for advertising"
"for invoice #9325"

⑥ Sign your name here in writing (cursive). DO NOT PRINT. You must use YOUR SIGNATURE so that the bank can compare the signature on the check with that on the signature card.

⑦ Shows your name or your company name - preprinted

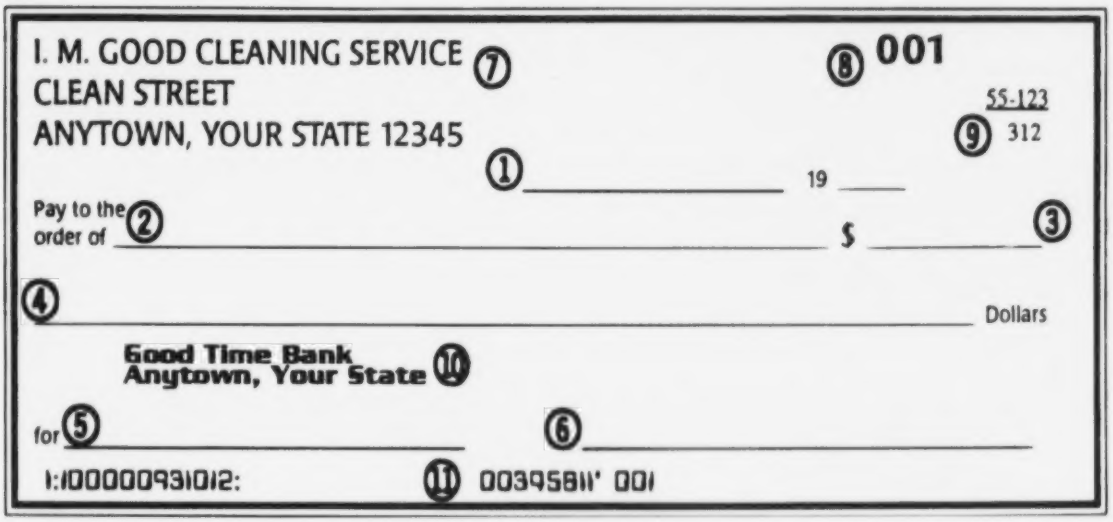
⑧ Shows the check number - preprinted

⑨ Shows the bank number - preprinted

⑩ Shows the name of your bank - preprinted

⑪ Shows your checking account number - preprinted

Checkbook



Some exercises follow which will help you find your way around the different parts of a check.

Checkbook

ACTIVITY: Look at both sample checks on page 20.

A. Draw a ring around the CHECK NUMBER on each check.

B. Put an X across the BANK NUMBER on each check.

C. Draw a box around the CHECKING ACCOUNT NUMBER on each check.

D. Write YOUR SIGNATURE on the line where you would sign the check.

E. Put TODAY'S DATE where the date should go on each check.

Exercises in writing out dollar amounts:

EXAMPLES:

THE AMOUNT	YOU WRITE
$232.00	Two hundred thirty-two and 00/100 dollars
$ 35.50	Thirty-five and 50/100 dollars
$125.78	One hundred twenty-five and 78/100 dollars

Try these examples yourself:

THE AMOUNT	YOU WRITE
$400.00	_____
$ 54.28	_____
$125.50	_____

Checkbook

ACTIVITY: Using the following information, fill out the sample check below:

- You get your cleaning supplies from X-Pensive Supply Store.
- The total amount of your bill is $18.93.
- On January 10, 1995 you write a check to pay your bill, invoice number 0375.

I. M. GOOD CLEANING SERVICE **001**
CLEAN STREET
ANYTOWN, YOUR STATE 12345

55-123
312

_____ 19 ____

Pay to the order of _____ $ _____

_____ Dollars

Good Time Bank
Anytown, Your State

for _____ _____

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WHAT ARE CHECK STUBS AND CHECK REGISTERS, AND HOW DO I USE THEM?

The bank will give you a CHECK BOOK REGISTER to use. In it you will record all the deposits you make and all the checks you write.

Instead of a check register you may have CHECK STUBS.

Your instructor will show you examples of both the check register and check stubs. Regardless of which you use, the same information is recorded on both of them. If you do not understand the check register/stubs the bank gives you, ask the banker to show you how to use them.

Below is an example of one kind of check register.

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT									Balance	
NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		✓	FEE IF ANY (-)	DEPOSIT/CREDIT (+)		①	
②	③	④	⑤				⑥		⑦	
									⑧	

Checkbook

LOOK AT THE CHECK REGISTER ON PAGE 25.

Where you see number:

① When you start using your FIRST check register or check stub, write the beginning balance (amount) that is in the checking account. (That is the first amount of money you put into your checking account when you opened it.)

② If you are writing a check, write the preprinted check number.

③ Write the date here (it is the date on which you are writing the check or the date you are making the deposit).

④ a. If you are writing a CHECK, write the name of the person or company to whom you wrote the check.

b. If you are making a DEPOSIT, write "deposit". (If you want more information, you can also write down where you got the money you are depositing.)

⑤ If you are writing a check, write the amount of the check here. If there are other charges on the account that the bank makes (such as a service charge), be sure to put them in this column.

⑥ If you are making a deposit, write the total amount of the deposit here. If you have a checking account which earns interest, put the amount of interest earned in this column.

⑦ a. If you wrote a check, subtract the amount of the check from your beginning balance (#1). That amount is now your new, or CURRENT BALANCE.

b. If you are making a deposit, add the amount of the deposit to your beginning balance, and that amount is your CURRENT BALANCE.

⑧ You will write your CURRENT BALANCE here.

Checkbook

PRACTICE IN USING A CHECKBOOK REGISTER

Using the following information, fill in the blank sample checkbook register below and find your current balance:

Your **Beginning Balance** is: $150.00

On January 10, 1995 you wrote: Check #100

The check was written to: Chemical Specialists

It was written for: Lawn Care Supplies

The supplies cost: $18.93

On January 11, 1995 you deposited payments from three clients:

Mrs. Smith, Mr. Jones and Mrs. Cohen

The deposits totaled: $101.48

On January 18, 1995 you wrote: Check #101

It was written to: George Leasing Company

It was written for: Rent

The amount was: $50.00

RECORD ALL CHARGES OR CREDITS THAT AFFECT YOUR ACCOUNT									Balance	
NUMBER	DATE	DESCRIPTION OF TRANSACTION	PAYMENT/DEBIT (-)		✓	FEE IF ANY (-)	DEPOSIT/CREDIT (+)			

CAN I WRITE A CHECK ANYTIME?

You may write a check anytime you want as long as you have enough money deposited in your account to "cover" the amount of the check.

EXAMPLE 1:

You have $275 in your checking account.

You need to write a check for $50.

$275 in your account

- $ 50 the amount of your check

$225 left in your account after your write a check

You have enough money in your account to write the check and still have money left in the bank. In other words, you have enough money to "cover" the amount of the check.

EXAMPLE 2:

You have $275 in your checking account. You want to write a check for $300.

$300 is more than $275. You do not have enough money in your account to "cover" the amount of the check.

If you write your check, it will "bounce". The bank will refuse to cash the check.

The bank will also charge you as much as $30 for each check that "bounces".

The person to whom you wrote the check that "bounced" may also charge you an extra amount because you wrote them a "bad check".

Checkbook

HOW CAN I TELL IF I HAVE ENOUGH MONEY IN THE BANK TO WRITE A CHECK?

You will be able to tell by looking at:

a. Your check stubs

b. Your check register

Make life easy on yourself. **Give yourself a few simple rules and always follow them.**

1. When you make a deposit or write a check, always write down the amount of the deposit or check in your check register so that you will not forget. It is recommended that you write down the information about the check in the register prior to writing the check.

2. If you are making a deposit, **add the amount of the deposit** to your checkbook total.

3. If you are writing a check, **subtract the amount of the check** from the total in your check register.

4. **Use a calculator!!!** Or in some way make sure that you add and subtract correctly.

5. Before you write a check, make sure that you have enough money in your account to "cover" the check. **If you do not have enough money, DON'T write the check!!!**

If you always stick to these rules, a checking account can be a really good way for you to keep a written record of your business.

Checkbook

Check Point! Check Your Understanding

1. What is the purpose of an endorsement? Where do you put the endorsement on the check?

2. Why do you always write a check with an instrument which has ink?

3. When you write the amount of the check in numerals, why should you write it as close as possible to the dollar sign?

4. Why should you always write your name, not print your name, when you sign a check?

5. Before writing a check for a certain amount of money, why should you make sure that you have enough in the checking account to cover the amount of the check?

6. Do the checkbook stubs and checkbook register serve the same functions? Explain.

7. Why is it recommended that you write down the amount of the check in the register or check stub before writing the check?

File Card/Cash

Many of you might not want to use a checking account at the present time because you probably will need the signature of a parent on both the signature card and the checks that you write because you are a minor. Perhaps you will not want to be bothered with setting up the account or in paying the bank charges on the account. Still you will have to keep records showing the flow of money into and out of the business. Otherwise you will not know how much money you should have or be able to know how it was gained and spent.

With the file card/cash method, you will only be receiving cash, not checks. You will make many of your payments in cash, and some by money orders (which are like checks) that you purchase at a bank, post office or other financial institution. Money orders carry a fee, but they are essential to use when you are mailing payments to others. Otherwise, your payment could be easily stolen. When someone sees your payment envelope with cash, they can open the envelope and take the cash very easily and there is no way to trace the thief. With a money order, only the party named on the money order can receive the money.

For this system to work, you must have two sets of cards — cash received cards and cash disbursement cards. Each of them will be described in the following.

Cash Received Cards

Use this card to write down any and all money that you receive for the business.

When you see the number:

① Write the date the money was received.

② Write who paid you the money.

③ Write why you received the money - what service you provided or what goods you sold.

④ Write the amount of money you received.

⑤ Write the total money you have received to date. (To calculate this, add the last amount received to the last total to date. Write this answer in the balance column beside the LAST amount received.)

Cash Received				
Date	From	Reason	Amount	Balance
①	②	③	④	⑤

File Card/Cash

ACTIVITY: For use of the cash received card

Using the following information, record cash you have received:

On January 2, 1995 you received $75.00 for cleaning Mrs. Gray's garage.

On January 3, 1995 you received $110.00 for cleaning Mrs. Rodriguez' cellar.

On January 4, 1995 you received $50.00 for cleaning Ms. Thieu's garage and $40.00 for cleaning Mr. Matakis' attic.

Cash Received				
Date	From	Reason	Amount	Balance

File Card/Cash

Cash Disbursement Cards

Use this card to write down all money that goes out of the business (money you pay for business-related things you buy).

When you see the number:

① Write down the date the money was paid out.

② Write to whom you paid the money.

③ Write the reason the money was paid out - such as what kind of supplies were purchased.

④ Write the amount of money paid out.

⑤ Write the total money paid out to date.

Cash Disbursed				
Date	Paid To	Reason	Amount	Balance
①	②	③	④	⑤

File Card/Cash

ACTIVITY: For use of cash disbursement cards

The following information came from receipts for things or services that you bought for your business. The information from receipts, cash register tapes or invoices gets recorded on cash disbursement cards.

Use this information to fill out the blank cash disbursement card below:

On January 2, 1995 you purchased cleaning supplies from Stein's Supply Store at a total cost of $32.00.

On January 2, 1995 you purchased index cards and sales slips from Yelnosky's Office Supply for a total of $4.25.

On January 4, 1995 you purchased more cleaning supplies from Stein's Supply Store at a total cost of $18.00.

Cash Disbursed				
Date	Paid To	Reason	Amount	Balance

Comparisons Between the Checking Account and File Card/Cash Methods

Knowing the amount of money available to a business is important. Either the checking account or the file card method shows the amount of money available. The current balance in the checking account will show this. If you are using the file card plan, deduct the current balance on the cash disbursements cards from the balance on the cash receipts card. The remaining amount is the money available.

As with many records, you should check whether the amount indicated by either method is correct. In the case of the file card method, counting the cash that you have on hand to see if it corresponds with the amount that your records indicate is a way that this can be done. In the case of the checking account, you should see whether your records correspond with those of the bank. This process is called a bank reconciliation. More will be said about this later.

Money In and Money Out

Records Which Show How Much Others Owe You and What You Owe Others

Credit is an important part of the business world today. At this point, some of you may not use credit at all in starting and running your business. You may not charge any of your purchases or let your customers charge their purchases. Credit basically means that sellers permit buyers to buy items or services without having to pay on the spot — instead payment is made later.

In some instances, credit is necessary in order to make sales. Some people do not have the available money and expect to pay later. In some instances, people do not have money at certain times because their income is mostly earned at other times of the year. For example, farmers may be low on cash in the winter because they are not harvesting their crops.

If you buy items on credit or sell items on credit, it is important that you keep careful records for this. Why? You want to know which customers owe you money so that you can make sure that you get paid. You want to know how much and to whom you owe money so that you pay them on time. Otherwise, your credit rating will suffer, which means that you may not be able to get credit as easily or as inexpensively in the future.

There is an easy way to do this, again using a card system.

Money In and Money Out

Accounts Receivable Cards

First of all, accounts receivables refer to those people who have purchased something from you, part or all of which they charged, meaning that they did not pay for the purchase fully in cash.

To keep a set of accounts receivable cards, make one of the cards for each customer who owes you money.

Every time you sell a product or provide a service and do not get paid in full, write the information on an accounts receivable card for that customer. Every time the customer makes payment on the debt, make sure that you update the card. As shown in the example, the following types of items are generally found on the card:

Name of Customer
Telephone Number and Address of Customer
Date of Sale or Payment
Number of Sales Receipt
Amount of Sale
Amount Received for Sale
Balance Due

Accounts Receivable Card

Customer _____ Telephone _____

Address _____

Date	Sales Slip Number	Amount of Sale	Amount Received	Balance

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Money In and Money Out

Looking at the example, Anna Macklowe purchased an item worth $75 from you on July 5, 1994, paying $25 and charging the other $50. Notice how that is shown on the first line. Two weeks later, Anna paid another $25 on her debt with you, bringing her balance down to $25. On July 26, she purchased a $10 item from you and charged the entire amount. Her balance increased to $35.

Where do you get the information to complete the accounts receivable card? Remember that the sales receipt shows the sales in which cash was paid and on which credit was given. Those which have credit sales are one source for completing the accounts receivable card. Also, the payments to decrease the debt will appear as a deposit in the checkbook if using the checkbook method or a receipt on the cash received card if the file card method is used.

Accounts Receivable Card

Customer	Anna Macklowe		Telephone	555-1235
Address	1098 Any Street Your Town, State ZIP			
Date	Sales Slip Number	Amount of Sale	Amount Received	Balance
7/5/94	567	$75.00	$25.00	$50.00
7/19/94			$25.00	$25.00
7/26/94	615	$10.00	$0.00	$35.00

Money In and Money Out

Accounts Payable Cards

Accounts payable include those to whom you owe money because you purchased a good or service.

To keep a set of accounts payable cards, make a card for each person or company that you have not paid in full.

Every time you buy a product or service and do not pay the full amount due, write the information on an accounts payable card for the person or company you owe. When you make a payment to one of the persons named on the cards, please be sure to note that payment on the card so that your actual balance is accurate. As shown on the example, the following types of information should be included on each card:

Name of Person
Address and Telephone Number
Date
Invoice Number/ Check Number
Item Purchased
Amount of Invoice
Amount Paid
Balance

Accounts Payable Card

Vendor Telephone

Address

Date	Invoice No. Check No.	Item Purchased	Amount of Invoice	Amount Paid	Balance

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Money In and Money Out

Looking at the example, you purchased some shelving at a garage sale for $100, giving your neighbor Abe Smith $25 with the promise that you would pay him the $75 later. You returned to his home a week later and found some old pictures that you liked for your room and purchased them for $10, giving him only $5 at the time. In another week, you paid him $25. Another week later, you paid him the remainder of the bill.

Where do you get the information to complete the accounts payable card? Data is available from both the checkbook or disbursements card and the purchases receipt. When you purchase something, at least part of which is purchased on credit, you will increase the amount that you owe a particular seller. When you pay off (by cash or check) part or all of the amount owed, you will decrease the balance that you owe that particular party.

Accounts Payable Card

Vendor	Abe Smith			Telephone	555-7143
Address	604 Main Street Your Town, State ZIP				
Date	Invoice No. Check No.	Item Purchased	Amount of Invoice	Amount Paid	Balance
7/14/94	135	shelving	$100.00	$25.00	$75.00
7/21/94	151	pictures	$10.00	$5.00	$80.00
7/28/94	160			$25.00	$55.00
8/4/94	165			$55.00	$0.00

Money In and Money Out

Check Point! Check Your Understanding

1. What are accounts receivable and accounts payable? What is the difference between them?

2. Why is it necessary to keep careful records of your accounts receivables and accounts payables?

3. Some businesses, especially small businesses, may not keep accounts receivable and accounts payable cards. In what instances would such a practice be understandable?

4. Where do you get information for the accounts receivable and accounts payable cards?

5. Using the forms given on page 44, complete the accounts payable and accounts receivable cards correctly for a sandwich delivery service.

   a. August 3, 1995 - Bought some new bicycle equipment from the ABC Bicycle Company, 334 Cheshire Boulevard, St. Louis, Missouri. Paid $50 (check 102) on the $200 total bill.

   b. August 4, 1995 - Hair stylists in the Hollywood Barber Shop charged $15 worth of sandwiches because of having no pocket money at the time. Barber Shop is located at 102 Locust Street, St. Louis, Missouri. Left sales receipt #1101 with them.

   c. August 4, 1995 - Received $18.69 cash from AMDE Insurance Company for sandwiches delivered to them. Their address is 103 Chestnut, St. Louis, MO. Gave them receipt #1004 for the amount received.

   d. August 10, 1995 - Paid $50 on the debt owed to ABC Bicycle Company (check 120).

   e. August 10, 1995 - Received the $15 from the Hollywood Barber Shop for the delivery made a week earlier.

Money In and Money Out

Accounts Payable Card

Vendor _____ Telephone _____

Address _____

Date	Invoice No. Check No.	Item Purchased	Amount of Invoice	Amount Paid	Balance

Accounts Receivable Card

Customer _____ Telephone _____

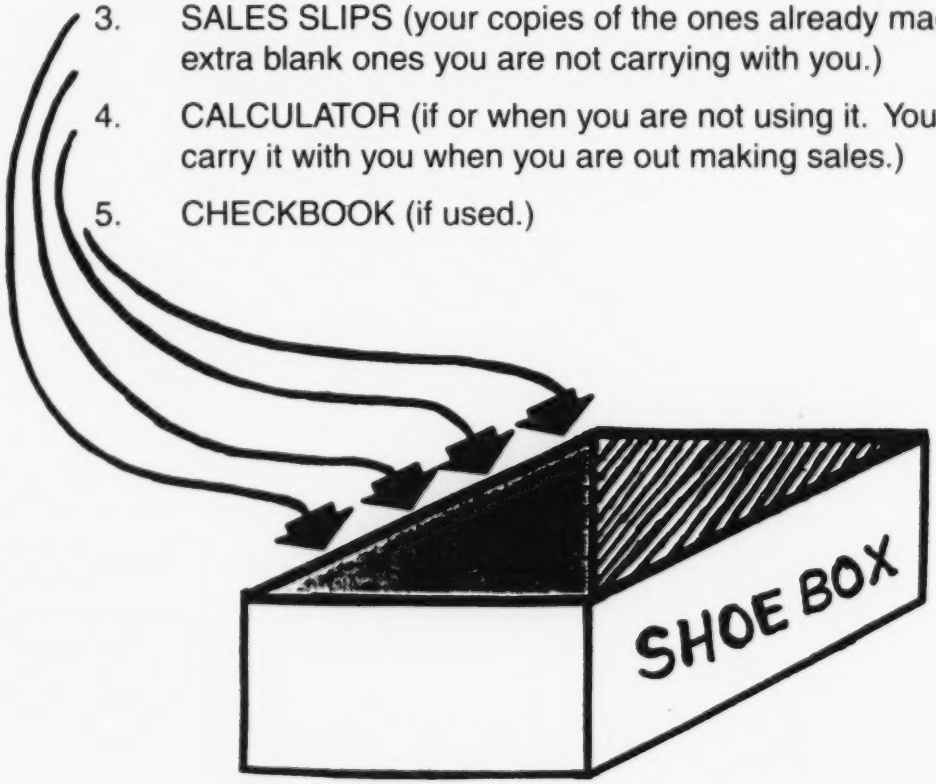
Address _____

Date	Sales Slip Number	Amount of Sale	Amount Received	Balance

System To Keep The Records Together

We have looked at various records that you should keep in order to run a business. As we have seen, information on the various forms relate to one another. For example, sales slips can affect the inventory records as well as the accounts receivable records. Consequently, it is important to have all of the records together in one place. If you have the records all together, the record keeping function will be easier. It is important to make record keeping as convenient as possible so that it is done as well as possible. It is recommended that you have the following items for your records for a small business in one place, like a shoebox.

1. 5" x 8" File Cards.
2. ENVELOPES.
3. SALES SLIPS (your copies of the ones already made out, and extra blank ones you are not carrying with you.)
4. CALCULATOR (if or when you are not using it. You may want to carry it with you when you are out making sales.)
5. CHECKBOOK (if used.)



Shoebox

1. The **shoebox** is used like a file cabinet. The things that you will file in it are the cards, envelopes, sales slips, calculator and checkbook (if used).

2. The **cards** are used for a number of things. There might be one set of them for **inventory** if you sell merchandise. Another set will be for **accounts receivable** and **accounts payable cards**. If you do not use a checkbook, you will need a third set for **cash disbursements** and **cash receipts cards**. All of these were covered previously.

3. **Envelopes** - You should have an envelope for each month of the year. On the outside of each envelope write the name of the month and the year.

   Each envelope should include the following:

   a. All completed **sales receipts** for that month. These would include all of the cash sales and the credit sales as well.

   b. All **purchase receipts** for the month. These would include all of the purchases that you made for the month including those you paid in cash and those on which you were granted credit.

   c. All of the **canceled checks** for the month. As you recall, these are the checks you wrote which were paid by the bank and returned to you showing that they have been paid.

   d. The monthly bank **statement** listing the checks the bank has paid out of your account in that month, along with the deposits you have made in the month, up to the date of the statement. The bank statement will also list any bank charges, such as charges for checks or service fees. You must write these charges in your checkbook register and SUBTRACT them from your current balance.

      The form for your bank reconciliation is generally found on the back of the bank statement. This is a process you should follow to make sure that your checkbook records agree with the records of the bank. Directions are included with the bank statement. It is important that you do the bank reconciliation. Your instructor or banker will help you with this if you have trouble doing it.

e. Any used **check register** that you complete during a particular month should be saved in the envelope for the month in which it is completed. You should keep the check register as well as your checks, as part of your business records.

4. **Sales receipts** - This is a set of blank sales receipts that you use whenever you make a sale. When you make a sale, you should complete one in duplicate, giving the original to the customer and keeping the duplicate. The duplicate should be put into the envelope for the month in which the sale was made.

5. **Calculator** - There is a lot of computation which must to be done to keep these records. Having a calculator helps to finish the record keeping faster and can help make the record keeping more accurate.

6. **Checkbook** - If you are using a checkbook, it should be a part of the group of items for the record keeping functions.

Check Point! Check Your Understanding

1. Why is it a good idea to put all of the items needed for keeping records together?

2. Your records might include one of three sets of index cards.

   In what instances would you only use one set of index cards?

   In what instances would you use two sets of index cards? three sets?

3. What is a bank statement?

4. What is a bank reconciliation? Why should you do a bank reconciliation? Would you need to do a bank reconciliation if you used the file card/cash method of paying and receiving money?

5. What is the difference between the sales receipts forms which are in the shoe box and the sales receipts in the envelope?

How Do You Know If You Made a Profit?

With the records that you have, you can figure out your profit in one of two different ways. The first way is preferred by accountants because it matches expenses and income in the period when they occurred. This is called the accrual method.

The second way is not as precise but it can give a close approximation of the true income or loss for a particular time period. It is called the cash method. Probably, most small businesses, like the one that you might start, will use the cash method. From a legal standpoint, it is fine to use.

To show the difference, the way of figuring the profit from both methods is given below.

Determination of Profit According to **Accrual Method**

Total Sales (gained from sales receipts)
- Total Expenses (gained from purchases receipts)

Your Profit

Determination of Profit According to **Cash Method**

Total Sales (gained from deposits in checkbook or from cash receipts cards)
- Total Expenses (gained from written checks or from cash disbursement cards)

Your Profit

Notice that in the first one, sales on credit and purchases on credit are included in the total sales and total expenses. Remember the sales receipts were written for both cash and credit sales. The same is true of the receipts you receive when you purchase something on credit.

In the second way, only those sales for which cash is received are included as sales; only those expenses and costs which were paid for in this period are included as expenses. For example, if you purchased something during this period that you did not pay for, it would not show up as an expense this period. It will show up during the period when you pay for it. Since small businesses, like

the ones that you would operate, would have few sales and expenses which would be put on credit, the cash system is probably the easiest way to determine what your profit or loss would be for a particular period of time.

One of the questions that many people ask when they look at the profit that they have made for the year focuses on whether they have made a good profit. This is a tough question because there are a lot of things to consider. To answer the question fully, one must do a lot of comparing. Probably the first consideration is to determine what the "profit" from the business actually represents. Many times people think of profit as being a return for taking a risk. For many businesses, the profit also is a return for putting time into the business. For others who have invested a lot of money or valuable things into the business, part of the profit is a return on that investment.

You can compare your profit with the return that you could gain from putting your resources into other uses. Let's take an example to explain what this means. Suppose that Millie earned $3,000 from her business over the last year. Millie estimated that she worked at this part-time business about 400 hours during the year. She knew that she could have earned $5 an hour working in a fast-food restaurant in the town where she lived if she didn't run that part-time business. She did put $300 into a different bicycle in order to get to her customers. If she had left that money in her savings account she could have earned 5% interest which would have given her $15 of interest for the year. A comparison of the two ways of using the resources is given below:

Profit from business **$3,000**	Leaving Money in Savings Account	$ 15
	Working at Fast-Food Restaurant $5 x 400 hours =	$2,000
	TOTAL	**$2,015**

One could say that the $3,000 profit was a good one for Millie when compared to other uses of her resources because it gave her $985 more.

If Millie liked the freedom and the experience of running her own business, she might think a $2,000 return was a good profit even if should could receive a bit more using her resources in another way which is not as satisfying to her.

Profit

In other instances, one can only expect losses for the first few years of a business because of the need to get established. This, in turn, means that the probable results of this comparison will show that an alternate use of resources looks good for the first few years.

Certainly the good entrepreneur has to ask the question, "Am I making a good profit?" But as indicated, it is not a simple yes/no answer. It not only involves looking at alternative uses of the resources of the entrepreneur but also the life-style that is wanted, as well as the stage in the life cycle of the business.

Check Point! Check Your Understanding

1. Listed below are several transactions. For each one indicate whether the accounts payable card, the accounts receivable card, the checkbook, or the envelope in the envelope system would be affected. Explain how each would be affected. Assume that when cash is received that it will be deposited in the checking account soon after it is received. Keep in mind that any one transaction may affect more than one record. The transactions below are for a small bicycle shop.

   a. Paid cash for parts to the Allen Corporation, $300.

   b. Completed a job for A. Smith. She paid $50 of the $100 that was owed on the job.

   c. Picked up bicycle chains from the Order Bicycle Shop and charged the amount on credit, $150.

   d. Cash sales for day were $400.

   e. A. Smith paid the other $50 on the work that was completed earlier.

   f. Picked up tires from the C. Green Company for $200. Used a check for payment.

   g. Paid $100 to the other Bicycle Shop for work completed earlier.

2. Pat has his own lawnmower business. He has just read this module but wonders about some of the advice that has been given. He wonders what recordkeeping method he should use since his situation is a little different than what was discussed here.

   He has ten lawns to mow. His customers give him cash and checks. He has a savings account where he deposits the checks. His dad indicated that he should not bother with a checking account because he would have to pay a lot of fees; also, he would have to get a parent to sign each check since he was a minor. When he needs to write a check for something, he gives the money to his dad who then writes a check on his own personal account.

   Pat has tried to give his customers sales receipts after he finishes the jobs. Most do not want them. All they want is a neatly mowed lawn. Pat wonders if he should continue making out those receipts; they are really time consuming.

   Most of the time his customers pay him right away. There is one customer who lives out of town; Pat is paid only once in the fall for all of the times that he has mowed that particular lawn. Up to this point, Pat has paid all of his bills in cash, not owing anyone any money.

Help Pat out by answering the following questions:

1. Do you think Pat should continue completing sales receipts to give to his customers or should he forget it?

2. What type of inventory records should Pat maintain?

3. Should Pat use the checkbook method or the file card/cash method to keep track of the flow of cash into and out of his business?

Keeping Records

4. Should Pat maintain accounts receivable and accounts payable cards? Why or why not?

5. What would be some of the purchases receipts that Pat would probably have during a particular month?

6. What do you think Pat would keep in the monthly envelopes?